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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 001811

SIPDIS

DEPT FOR EUR/RUS, EEB/ESC/IEC GALLOGLY AND GREENSTEIN,  
S/EEE MORNINGSTAR AND STEIN  
DOE FOR HEGBURG, EKIMOFF  
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SUBJECT: NEW BP RUSSIA CEO SAYS TNK-BP DOING "EXTREMELY  
WELL", BP LOOKING FOR MORE OPPORTUNITIES IN RUSSIA

REF: A. MOSCOW 1388

[1](#)B. 08 MOSCOW 3592

[1](#)C. 08 MOSCOW 3394

Classified By: Ambassador John R. Beyrle for Reasons 1.4 (b/d)

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Summary  
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[1](#)1. (C) New BP Russia President Jeremy Huck told the Ambassador in a July 13 meeting that his first priority is to maintain and protect BP's investment in TNK-BP. Huck said TNK-BP continues to perform "extremely well" and that despite some tensions, relations with AAR (its Russian partners in TNK-BP) have improved tremendously. Huck's next priority is to expand BP's opportunities in Russia beyond the TNK-BP joint venture, including through projects with Rosneft, Lukoil, and Gazprom. According to Huck, a deal with Gazprom on the sale of TNK-BP's interest in the giant Kovykta gas field may be resurrected as PM Putin has expressed a personal interest in the field. Huck said the signals BP has received from the government and Gazprom, however, are that it should not expect any major changes soon to GOR policies in the oil and gas sector. On CPC, Huck said BP has reached agreement on selling its remaining stake to Lukoil but that "an enormously complex set of consents from various parties" still need to be lined up. End summary.

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NEW BP RUSSIA PRESIDENT  
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[1](#)2. (C) On July 13, the Ambassador met with BP Russia's new President, Jeremy Huck, who is responsible both for overseeing BP's shareholder interest in TNK-BP as well as for developing BP's broader business in Russia. Huck previously worked in Russia from 1991-96 with a small U.S.-based independent oil and gas company, then joined BP, working in a variety of capacities in North America and Europe before returning to Russia this year. He told the Ambassador his first priority here is to maintain and protect the TNK-BP venture and his second priority is to diversify BP's options in Russia more generally (ref C). To that end, he said BP is focused on expanding its relationship with Rosneft in Sakhalin and the Arctic, working with Lukoil internationally, and re-engaging with Gazprom.

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¶3. (C) Huck described TNK-BP as performing "extremely well." He said this is a message that BP has not adequately publicized, but also agreed with the Ambassador that it is perhaps a message that does not need to be emphasized lest it draw unwanted attention to BP. According to Huck, BP received between \$2.5 and \$3 billion in shareholder dividends from TNK-BP in 2008, and about \$11 billion in "free cash flow" over the past six years. He said TNK-BP lacks a clear message about what the future holds, but noted that recovery from the dispute is nearly complete, with almost all the ancillary problems of various regulatory and tax investigations and lawsuits resolved. He added that the two sides are also about to sign a new service agreement (allowing BP secondees to work at TNK-BP) that was initiated at the request of AAR.

¶3. (C) According to Huck, the level of engagement between BP and AAR is "unprecedented" and generally positive despite minor tensions. He said the biggest current dispute is over the selection of a new CEO. In response to the Ambassador's inquiry about the performance of interim CEO (and AAR partner) Mikhail Fridman (ref A), Huck said Fridman largely delegates responsibility to COO Tim Summers, and AAR partners and TNK-BP Executive Directors Viktor Vekselberg and German Khan. In Huck's opinion, operations are "not much different than before." Huck confirmed that Fridman's appointment is still considered temporary and his mandate as interim CEO would conclude at the end of 2009. He said TNK-BP is not

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seeking more candidates for CEO while it evaluates BP-nominated Pavel Skitovich and AAR-nominated Maxim Barsky (ref A), who Huck noted is only 35 years old. The two have taken up well-defined duties within TNK-BP and are "scrambling" to prove themselves.

¶4. (C) Huck said that only the eight board members representing BP (four) and AAR (four) would vote on the new CEO. He said the "independent" TNK-BP board members, Gerhard Schroeder, Alexander Shokhin, and Jim Leng have been asked to evaluate Skitovich and Barsky to provide a non-binding opinion on which candidate should get the job. Huck estimates each has a one-third chance of being chosen, and that there is a one-third chance neither will be chosen. In the event neither is selected, Huck said, another temporary arrangement with Fridman is likely. He noted that finding a qualified candidate who wants the job and is acceptable to both sides has been very difficult.

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BP-GAZPROM  
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¶6. (C) Huck explained that BP recently brought in a new CFO, Scott Sloan, to be directly responsible for developing a relationship with Gazprom and to "think about the future" of BP in Russia. Given that it "cannot ignore the world's largest gas company," BP has now re-engaged with Gazprom, taking advantage of Huck's "long-time relationship" with Gazprom Deputy CEO Alexander Medvedev. Huck said the discussions with Gazprom are "general" in nature and have not yet yielded any specific agreements. Huck also cautioned that the signals he and BP have received from Gazprom and the GOR indicate that no major changes will be coming anytime soon to Gazprom's general business practices nor to the GOR's policies with regard to the energy sector. He agreed with the Ambassador's suggestion that the potential energy and environment committee of the proposed Bi-National Commission could help change that.

¶7. (C) In response to the Ambassador's question about the status of the long-stalled purchase by Gazprom of TNK-BP's stake in the giant Kovykta gas field, Huck said "the casket

on that deal seems to have been cracked open." He said he believes PM Putin has instructed Gazprom to take another look at Kovykta. Huck said he thinks that two factors are at play with regard to Kovykta. One, the license is out of compliance because the project cannot move forward under the current uncertainty. This is a problem for Minister of Natural Resources Trutnev. Two, for some reason, the PM is specifically interested in Kovykta and continues to ask about it, keeping it at the forefront of his subordinates' agenda. It is a "perceived priority" that Huck believes can be dangerous (i.e. that it might yield unpredictable results depending on how those subordinates decide to act on the PM's behalf).

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CPC  
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18. (C) With regard to CPC, Huck said that BP is actively engaged with Lukoil to sell its remaining stake in the pipeline (ref B). He said there is a clear plan in place and that BP still expects to be completely out of CPC by the end of the year. However, Huck cautioned, it is also possible the deal will not close by then. He explained that there remains an "enormously complex set of consents that need to be lined up," for BP to complete its exit. Huck noted that the sooner BP gets the signatures it needs, the less room there is for further nationalistic machinations by either of the governments involved. Huck said that in a recent meeting with Transneft head Nikolai Tokarev he was able to allay some tension and show that BP was acting in good faith.  
BEYRLE